

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

HB 3095 – SB 3343

February 25, 2012

SUMMARY OF BILL: Exempts, from Hall Income Tax, any income derived from dividends paid by privately-owned businesses.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$8,449,300

Decrease Local Revenue – Net Impact - \$5,154,200


Assumptions:

- This bill shall take effect upon becoming a law. For the purpose of estimation, it is assumed this bill will apply to tax year 2012 and subsequent tax years.
- One hundred percent of Hall Income Tax returns for tax year 2012 will be settled no later than June 30, 2013 (or by the end of FY12-13). As a result, the first year impacted is assumed to be FY12-13. This pattern of settlement is assumed to remain constant into perpetuity.
- According to the Department of Revenue, and based on information obtained from federal 1099-DIV forms and the Tax Year 2009 Information Returns Master File, total dividend income is estimated to be approximately \$1,190,157,000. The Fiscal Review Committee staff does not have access to the data and information upon which this calculation is based and cannot independently verify its accuracy.
- Pursuant to Tenn. Code Ann. § 67-2-102, the Hall Income Tax is a six percent tax on income derived from bond interest and dividends.
- Twenty percent of dividends are paid by privately-owned businesses.
- The recurring decrease in Hall Income Tax revenue is estimated to be \$14,281,884 ($\$1,190,157,000 \times 20.0\% \times 6.0\%$). This number is assumed to remain constant in subsequent years.
- Pursuant to Tenn. Code Ann. § 67-2-119(a), 62.5 percent of Hall Income Tax revenue is allocated to the General Fund; the remaining 37.5 percent is allocated to local governments.
- The recurring decrease in Hall Income tax revenue retained by the state is estimated to be \$8,926,178 ($\$14,281,884 \times 62.5\%$); the recurring decrease in Hall Income Tax revenue to local governments is estimated to be \$5,355,706 ($\$14,281,884 \times 37.5\%$).

- Fifty percent of tax savings will be spent in the economy on sales-taxable goods and services.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent.
- The recurring increase in state sales tax revenue is estimated to be \$499,866 ($\$14,281,884 \times 50.0\% \times 7.0\%$); the recurring increase in local option sales tax revenue is estimated to be \$178,524 ($\$14,281,884 \times 50.0\% \times 2.5\%$).
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of state sales tax revenue as state-shared sales tax revenue.
- The recurring increase in local revenue pursuant to the state-shared allocation is estimated to be \$22,956 ($\$499,866 \times 4.5925\%$).
- The net recurring increase in state sales tax revenue is estimated to be \$476,910 ($\$499,866 - \$22,956$).
- The total recurring increase in sales tax revenue to local governments is estimated to be \$201,480 ($\$178,524 + \$22,956$).
- The net recurring decrease in state revenue as a result of this bill is estimated to be \$8,449,268 ($\$8,926,178 - \$476,910$).
- The net recurring decrease in local revenue as a result of this bill is estimated to be \$5,154,226 ($\$5,355,706 - \$201,480$).

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

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